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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

17 January 1985

South Korea: Economic Performance
and Defense Spending [REDACTED]

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We estimate South Korea's economic growth in 1984 was 7.5 percent, yielding a GNP of \$79 billion and putting South Korea once again among the world's growth leaders. The 9.5 percent real increase in GNP in 1983 was particularly important for President Chun because it was the first time his government achieved the high growth Koreans had come to expect during the Park years. [REDACTED]

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Seoul has not only achieved high growth with low inflation -- a goal few economists thought possible -- but also reduced the current account deficit from \$2.6 billion in 1982 to \$1.6 billion in the last two years. Given Seoul's economic performance, South Korea has had little trouble attracting foreign capital to meet its financing needs despite its growing debt, which now totals \$43 billion. [REDACTED]

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President Chun and his economic advisers can take much of the credit for current economic conditions. When he came to office in 1980 Chun strengthened the austerity program begun by the Park government to wring high inflation and the expectation that it was a fact of life out of the economy as well as to curtail the growing foreign debt. Korean economic planners believed stable prices were mandatory for high growth during the 1980s. [REDACTED]

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This memorandum was prepared by [REDACTED] Korea Branch, Northeast Asia Division, Office of East Asian Analysis for Admiral Burkhalter of the Intelligence Community Staff in preparation for his trip to the Far East. Comments and queries are welcome and may be addressed to Chief, Korea Branch at [REDACTED]

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Austerity remains the watchword in 1985. The growth in the money supply, which was reduced from 28 percent in 1982 to 15 percent in 1983, is targeted at only 9.5 percent this year. The 1985 budget, which provides a small surplus, pegs the increase in government spending to the rate of economic growth.

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Barring external shocks, we project 1985 as a good year for the Korean economy. South Korea is favorably positioned to achieve 6.5-7 percent real GNP growth. By gradually depreciating the won and keeping inflation low, Seoul will maintain its export competitiveness.

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In its defense spending for 1985, the South Koreans are concerned that new accounting ground rules for GNP required by the IMF would make it difficult for Chun to meet his pledge of allocating 6 percent of GNP to defense. To do so would require a boost of better than \$500 million in defense expenditures and force a sharp reduction in outlays in nondefense areas. We believe Seoul will make a serious effort to again reach the 6-percent target. Although slower economic growth this year will make the targeted ratio easier to attain in the short term, maintaining the ratio over the long term may become difficult because of declining growth in revenue.

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Over the medium term South Korea's economic performance will depend heavily on global economic conditions and Seoul's ability to move up the technology ladder. Seoul has promulgated economic reform measures aimed at encouraging increased inflows of foreign equity investment particularly in technology-intensive sectors. These new regulations should increase the placement of technologically advanced products and processes in industries such as transport equipment, chemicals, electronics, and semiconductors, areas in which the United States in particular excels. General Motors and IBM are among the many companies who have recently announced large equity investments in South Korea in technology-intensive ventures.

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